

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MAGOFFIN COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Magoffin County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Magoffin County's major federal program, Public Assistance Grants, for the year ended June 30, 2005.

Financial Condition:

The fiscal court had net assets of \$2,620,356 as of June 30, 2005. The fiscal court had unrestricted net assets of \$894,173 in its governmental activities as of June 30, 2005, with total net assets of \$2,620,356. The fiscal court had total debt principal outstanding as of June 30, 2005, of \$8,509,922 with \$567,113 due within the next year.

Report Comments:

2005-01	The Fiscal Court Has Made Numerous Social Security And Medicare Payroll Errors Resulting In Liability In Excess Of \$30,000
2005-02	The Finance Officer Received \$22,466 Related To Payroll That Is Questioned
2005-03	The County Treasurer Received \$10,775 Related To Payroll That Is Questioned
2005-04	Other County Employees Received Vacation Pay In Excess Of Administrative Code
2005-05	The County Judge/Executive Owes The County \$5,776
2005-06	Timesheets Should Be Properly Maintained
2005-07	All Expenditures Should Be Presented To The Fiscal Court For Approval
2005-08	Employees Underpaid Health Insurance Premiums By \$1,857
2005-09	Fiscal Court Should Approve Annual Salary Schedule
2005-10	The Fiscal Court Should Comply With Bidding Requirements For FEMA Projects
2005-11	A \$51,248 KADD Lease Payment Has Been Delinquent Since October 2003
2005-12	The Fiscal Court Should Adopt A Written Investment Policy
2005-13	The County Should Maintain Proper Records For The Public Properties Corporation Fund
2005-14	Invoices Should Be Paid Within 30 Working Days Of Receipt

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Bill W. May, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Magoffin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Magoffin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
 Honorable Ernie Fletcher, Governor
 John R. Farris, Secretary
 Finance and Administration Cabinet
 Honorable Bill W. May, Magoffin County Judge/Executive
 Members of the Magoffin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Magoffin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2006, on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- | | |
|---------|---|
| 2005-01 | The Fiscal Court Has Made Numerous Social Security And Medicare Payroll Errors Resulting In Liability In Excess Of \$30,000 |
| 2005-02 | The Finance Officer Received \$22,466 Related To Payroll That Is Questioned |
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| 2005-14 | Invoices Should Be Paid Within 30 Working Days Of Receipt |

Respectfully submitted,



Crit Luallen
 Auditor of Public Accounts

Audit fieldwork completed -
 September 12, 2006

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Bill W. May	County Judge/Executive
Troy W. Minix	Magistrate
Manuel Minix	Magistrate
Pernell Lemaster	Magistrate

Other Elected Officials:

Donald W. McFarland	County Attorney
Gene Helton	Jailer
Haden B. Arnett	County Clerk
Roger Gullet	Circuit Court Clerk
Randall Jordan	Sheriff
Bill Patrick	Property Valuation Administrator
Jerry Dunn	Coroner

Appointed Personnel:

Mary Lea Miller	County Treasurer
Marcella Salyer	Finance Officer

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MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,915,429
Total Current Assets	<u>1,915,429</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	804,003
Construction in Process	6,309,049
Buildings	1,223,752
Vehicles and Equipment	471,436
Infrastructure Assets - Net of Depreciation	<u>406,609</u>
Total Noncurrent Assets	<u>9,214,849</u>
Total Assets	<u>11,130,278</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	305,000
Financing Obligations Payable	<u>262,113</u>
Total Current Liabilities	<u>567,113</u>
Noncurrent Liabilities:	
Bonds Payable	6,980,000
Financing Obligations Payable	<u>962,809</u>
Total Noncurrent Liabilities	<u>7,942,809</u>
Total Liabilities	<u>8,509,922</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	704,927
Restricted For:	
Capital Projects	1,021,256
Unrestricted	<u>894,173</u>
Total Net Assets	<u>\$ 2,620,356</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,555,135	\$ 96,342	\$ 121,711	\$
Protection to Persons and Property	607,296	3,072	71,121	
General Health and Sanitation	401,924	157,890	177,742	2,500
Social Services	32,905			
Recreation and Culture	80,920			
Roads	1,279,030		2,764,867	
Interest on Long-term Debt	401,918			
Capital Projects	2,500			
Total Governmental Activities	\$ 4,361,628	\$ 257,304	\$ 3,135,441	\$ 2,500

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Intergovernmental Revenues

Miscellaneous Revenues

Gain on Sale of Capital Assets

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental	
Activities	
<hr/>	
\$	(1,337,082)
	(533,103)
	(63,792)
	(32,905)
	(80,920)
	1,485,837
	(401,918)
	(2,500)
<hr/>	
\$	(966,383)
<hr/>	

	431,546
	80,415
	83,822
	856,387
	964
	852,292
	85,299
	16,663
	15,217
<hr/>	
	2,422,605
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	1,456,222
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	1,164,134
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\$	2,620,356
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The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Solid Waste Fund	Building Administration Fund	Magoffin County Public Properties Corporation Justice Center Fund
ASSETS					
Cash and Cash Equivalents	\$ 57,971	\$ 646,256	\$ 17,463	\$ 1,021,256	\$ 91,846
Total Assets	<u>\$ 57,971</u>	<u>\$ 646,256</u>	<u>\$ 17,463</u>	<u>\$ 1,021,256</u>	<u>\$ 91,846</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 57,971	\$	\$	\$	\$
Special Revenue Funds		646,256	17,463		
Capital Projects Funds				1,021,256	91,846
Total Fund Balances	<u>\$ 57,971</u>	<u>\$ 646,256</u>	<u>\$ 17,463</u>	<u>\$ 1,021,256</u>	<u>\$ 91,846</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued).

Non-Major Governmental Funds	Total Governmental Funds
\$ 80,637	\$ 1,915,429
<u>\$ 80,637</u>	<u>\$ 1,915,429</u>
\$ 80,637	\$ 57,971
	744,356
	<u>1,113,102</u>
<u>\$ 80,637</u>	<u>\$ 1,915,429</u>

Funds to the Statement of Net Assets

Total Fund Balances	\$ 1,915,429
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	10,000,395
Accumulated Depreciation	(785,546)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing obligations	(1,224,922)
Bonded Debt	<u>(7,285,000)</u>
Net Assets Of Governmental Activities	<u>\$ 2,620,356</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Solid Waste Fund	Building Administration Fund
REVENUES				
Taxes	\$ 1,328,646	\$	\$	\$
Excess Fees	964			
Licenses and Permits	95,764			
Intergovernmental	136,934	2,258,625	193,562	
Charges for Services			157,890	
Miscellaneous	55,108	14,711	13,894	
Interest	198	557	63	10,472
Total Revenues	<u>1,617,614</u>	<u>2,273,893</u>	<u>365,409</u>	<u>10,472</u>
EXPENDITURES				
General Government	759,220			
Protection to Persons and Property	7,250			
General Health and Sanitation			386,206	
Social Services	1,667			
Recreation and Culture				
Roads		1,305,381		
Debt Service	89,551	27,894	189,143	
Capital Projects				
Administration	406,575	173,112	50,665	
Total Expenditures	<u>1,264,263</u>	<u>1,506,387</u>	<u>626,014</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>353,351</u>	<u>767,506</u>	<u>(260,605)</u>	<u>10,472</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets			250,000	
Financing Obligation Proceeds			100,175	
Transfers From Other Funds	181,061	115,000	185,000	
Transfers To Other Funds	(476,913)	(241,059)	(60,000)	
Total Other Financing Sources (Uses)	<u>(295,852)</u>	<u>(126,059)</u>	<u>475,175</u>	
Net Change in Fund Balances	57,499	641,447	214,570	10,472
Fund Balances - Beginning (Restated)	472	4,809	(197,107)	1,010,784
Fund Balances - Ending	<u>\$ 57,971</u>	<u>\$ 646,256</u>	<u>\$ 17,463</u>	<u>\$ 1,021,256</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Magoffin County Public Properties Corporation Justice Center Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 107,704	\$ 1,436,350
		964
		95,764
837,068	583,002	4,009,191
		157,890
247	1,850	85,810
3,792	136	15,218
<u>841,107</u>	<u>692,692</u>	<u>5,801,187</u>
	26,009	785,229
	592,620	599,870
	7,994	394,200
	31,238	32,905
	57,716	57,716
	61,643	1,367,024
604,638	9,140	920,366
1,121,405	2,500	1,123,905
2,632	118,551	751,535
<u>1,728,675</u>	<u>907,411</u>	<u>6,032,750</u>
<u>(887,568)</u>	<u>(214,719)</u>	<u>(231,563)</u>
		250,000
		100,175
	437,281	918,342
	<u>(140,370)</u>	<u>(918,342)</u>
	<u>296,911</u>	<u>350,175</u>
(887,568)	82,192	118,612
979,414	<u>(1,555)</u>	<u>1,796,817</u>
<u>\$ 91,846</u>	<u>\$ 80,637</u>	<u>\$ 1,915,429</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	118,612
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		1,246,477
Depreciation Expense		(93,803)

The Net Effect of the Sale of Capital Assets Is to Decrease Net Assets.		(233,337)
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The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, while Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds.

Financing Obligation Proceeds		(100,175)
Financing Obligations Principal Payments		290,000
Bond Principal Payments		228,448

Change in Net Assets of Governmental Activities	\$	1,456,222
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TO THE FINANCIAL STATEMENTS**

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Magoffin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Magoffin County does not have any discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Magoffin County Public Properties Corporation

The Magoffin County Fiscal Court appoints a voting majority of the Magoffin County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Magoffin County Public Properties Corporation.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Magoffin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not included in the financial statements of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Magoffin County, major funds are those whose total assets, liabilities, revenues, or expenditures/expenses are a least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Fund - The primary purpose of this fund is to account for the solid waste expenses of the county. The primary sources of revenue for this fund are monthly collection fees and from the state and federal government. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Building Administration Fund - The primary purpose of this fund is to account for local government economic development funds obtained by the county to construct a courthouse annex.

Magoffin County Public Properties Corporation - Justice Center Fund - The Magoffin County Public Properties Corporation - Justice Center Fund accounts for the activities of the Magoffin County Public Properties Corporation - Justice Center Fund, a blended component unit of the county. The Corporation issued debt to purchase property and build facilities of the justice center. The Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Solid Waste Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Magoffin County Public Properties Corporation - Justice Center Fund and the Building Administration Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on June 30 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is reporting only infrastructure, placed in service after July 1, 2003.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Machinery & Equipment	\$ 5,000	3-25
Motor Vehicles	\$ 5,000	10
Buildings	\$ 5,000	20-50
Land Improvements	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Magoffin County Public Properties Corporation Justice Center Fund. The Governor's Office for Local Development does not require this fund to be budgeted.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 804,003	\$	\$	\$ 804,003
Construction In Progress	5,187,644	1,121,405		6,309,049
Total Capital Assets Not Being Depreciated	5,991,647	1,121,405		7,113,052
Capital Assets, Being Depreciated:				
Buildings	1,712,791			1,712,791
Vehicles and Equipment	1,044,710		(306,686)	738,024
Infrastructure	311,456	125,072		436,528
Total Capital Assets Being Depreciated	3,068,957	125,072	(306,686)	2,887,343
Less Accumulated Depreciation For:				
Buildings	(451,072)	(37,967)		(489,039)
Vehicles and Equipment	(301,562)	(38,375)	73,349	(266,588)
Infrastructure	(12,458)	(17,461)		(29,919)
Total Accumulated Depreciation	(765,092)	(93,803)	73,349	(785,546)
Total Capital Assets, Being Depreciated, Net	2,303,865	31,269	(233,337)	2,101,797
Governmental Activities Capital Assets, Net	\$ 8,295,512	\$ 1,152,674	\$ (233,337)	\$ 9,214,849

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 18,371
Protection to Persons and Property	7,426
General Health and Sanitation	7,724
Recreation and Culture	23,204
Roads	37,078
Total Depreciation Expense - Governmental Activities	<u>\$ 93,803</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt

A. USDA Rural Development Loan

In June 1995, the Public Properties Corporation (PPC) entered into an agreement with Rural Economic and Development of the Department of Agriculture of the United States to purchase \$140,000 of first mortgage revenue bonds at 5% interest for the completion of the Magoffin County Community Center Project. Subsequently, these bonds were retired through the procurement of a loan from USDA Rural Development. The PPC pays semi annual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the loan was \$113,500 as of June 30, 2005. Principal payment requirements and scheduled interest for the remaining term of the loan are presented below.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	3,400	5,675
2007	3,600	5,500
2008	3,800	5,325
2009	4,000	5,135
2010	4,200	4,935
2011-2015	24,200	21,320
2016-2020	31,000	14,625
2021-2025	39,300	6,075
Totals	<u>\$ 113,500</u>	<u>\$ 68,590</u>

B. Magoffin County, Public Properties Corporation - Justice Center

On August 1, 2002, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$7,855,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2003. The bonds will be paid in full May 2023.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is dependent upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

B. Magoffin County, Public Properties Corporation - Justice Center (Continued)

As of June 30, 2005, the principal balance on these bonds was \$7,285,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2006	305,000	302,602
2007	310,000	289,945
2008	325,000	277,080
2009	335,000	263,592
2010	340,000	249,690
2011-2015	1,870,000	1,026,633
2016-2020	2,220,000	612,877
2021-2023	1,580,000	133,833
Totals	<u>\$ 7,285,000</u>	<u>\$ 3,156,252</u>

C. Kentucky Infrastructure Authority Loan

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the landfill construction. The total amount approved was \$300,000. This loan has an interest rate of 3.8% and repayment began after all funds were drawn down. The county will pay semi annual installments due on June 1 and December 1 of each year in accordance with a schedule to complete the contract. The county was late in paying the amount due on June 1, 2005; payment was made in July 2005. The principal balance of the agreement was \$215,621 as of June 30, 2005. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Principal	Interest
2006	27,402	12,396
2007	19,148	7,339
2008	19,882	6,566
2009	20,644	5,764
2010	21,437	4,929
2011-2015	107,108	10,979
Totals	<u>\$ 215,621</u>	<u>\$ 47,973</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

D. Kentucky Area Development District - Equipment

On December 3, 2001, the fiscal court entered into a financing obligation agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal was \$490,000 with repayment to be made over an eleven-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$365,000 as of June 30, 2005. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Principal	Interest
2006	45,000	17,623
2007	45,000	15,552
2008	50,000	13,310
2009	50,000	10,910
2010	55,000	8,300
2011-2012	120,000	7,230
Totals	<u>\$ 365,000</u>	<u>\$ 72,925</u>

E. Kentucky Area Development District - Garbage Trucks

On April 24, 2003, the fiscal court entered into a financing obligation agreement with Kentucky Area Development District for the purpose of purchasing garbage trucks. The principal was \$155,000 with repayment to be made over a five-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$95,000 as of June 30, 2005. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Principal	Interest
2006	30,000	4,360
2007	30,000	3,190
2008	35,000	1,935
Totals	<u>\$ 95,000</u>	<u>\$ 9,485</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

F. Kentucky Area Development District - Equipment

On April 24, 2003, the fiscal court entered into a financing obligation agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal was \$490,000 with repayment to be made over a five-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$310,000 as of June 30, 2005. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Principal	Interest & Fees
2006	100,000	13,073
2007	105,000	9,163
2008	105,000	4,805
Totals	<u>\$ 310,000</u>	<u>\$ 27,041</u>

G. Salyersville National Bank

On July 30, 2004, the fiscal court entered into a loan agreement with Salyersville National Bank for operating the Solid Waste Fund in the amount of \$100,175. The interest rate is variable not to be less than 6.5%. The original agreement required 35 monthly payments of \$1,967 and one estimated balloon payment of \$45,924 on July 30, 2007 based on 6.5% interest; however, as the interest rate has always been higher than 6.5%, the balloon payment will be considerably higher than originally estimated. As of June 30, 2005, the interest rate was 8.25% and the principal balance outstanding was \$85,801. Principal payment requirements and scheduled interest assuming 8.25% for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Principal	Interest
2006	16,311	7,292
2007	16,311	7,292
2008	53,179	608
Totals	<u>\$ 85,801</u>	<u>\$ 15,192</u>

H. Kentucky Area Development District - Delinquent Payment

The fiscal court was delinquent on a Kentucky Area Development District payment due in October 2003. As of June 30, 2005, the fiscal court owed principal of \$40,000 and interest of \$11,248. On August 15, 2006, the fiscal court paid this delinquent amount totaling \$51,248.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 7,575,000		\$ 290,000	\$ 7,285,000	\$ 305,000
Financing Obligations	1,353,195	100,175	228,448	1,224,922	262,113
Governmental Activities					
Long-term Liabilities	<u>\$ 8,928,195</u>	<u>\$ 100,175</u>	<u>\$ 518,448</u>	<u>\$ 8,509,922</u>	<u>\$ 567,113</u>

Note 5. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2005, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Prior Period Adjustments

The prior year fund balance for the General Fund has been restated by \$120 due to voided checks and \$4,561 due to the removal of the payroll deficit. The prior year fund balance for the Solid Waste Fund has been restated by \$1,425 due to voided checks.

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,321,527	\$ 1,540,356	\$ 1,328,646	\$ (211,710)
Excess Fees	5,500	5,500	964	(4,536)
Licenses and Permits	83,501	83,501	95,764	12,263
Intergovernmental Revenue	27,500	165,665	136,934	(28,731)
Miscellaneous	36,437	49,958	55,108	5,150
Interest	500	500	198	(302)
Total Revenues	1,474,965	1,845,480	1,617,614	(227,866)
EXPENDITURES				
General Government	561,798	765,202	759,220	5,982
Protection to Persons and Property	9,000	7,250	7,250	
Social Services		1,667	1,667	
Debt Service	70,823	89,553	89,551	2
Administration	205,920	406,821	406,575	246
Total Expenditures	847,541	1,270,493	1,264,263	6,230
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	627,424	574,987	353,351	(221,636)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	141,059	141,059	181,061	40,002
Transfers To Other Funds	(768,483)	(716,046)	(476,913)	239,133
Total Other Financing Sources (Uses)	(627,424)	(574,987)	(295,852)	279,135
Net Changes in Fund Balance			57,499	57,499
Fund Balance - Beginning			472	472
Fund Balance - Ending	\$ 0	\$ 0	\$ 57,971	\$ 57,971

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,090,216	\$ 2,258,646	\$ 2,258,625	\$ (21)
Miscellaneous	1,500	1,500	14,711	13,211
Interest	2,000	2,000	557	(1,443)
Total Revenues	1,093,716	2,262,146	2,273,893	11,747
EXPENDITURES				
Roads	745,646	1,896,321	1,305,381	590,940
Debt Service	16,000	27,976	27,894	82
Administration	191,011	196,790	173,112	23,678
Total Expenditures	952,657	2,121,087	1,506,387	614,700
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	141,059	141,059	767,506	626,447
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			115,000	115,000
Transfers To Other Funds	(141,059)	(141,059)	(241,059)	(100,000)
Total Other Financing Sources (Uses)	(141,059)	(141,059)	(126,059)	15,000
Net Changes in Fund Balance			641,447	641,447
Fund Balance - Beginning			4,809	4,809
Fund Balance - Ending	\$ 0	\$ 0	\$ 646,256	\$ 646,256

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 171,704	\$ 171,704	\$ 193,562	\$ 21,858
Charges For Services		141,153	157,890	16,737
Miscellaneous	252,189	327,189	263,894	(63,295)
Interest			63	63
Total Revenues	423,893	640,046	615,409	(24,637)
EXPENDITURES				
General Health and Sanitation	222,644	421,935	386,206	35,729
Debt Service	373,253	373,253	189,143	184,110
Administration	40,148	57,010	50,665	6,345
Total Expenditures	636,045	852,198	626,014	226,184
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(212,152)	(212,152)	(10,605)	201,547
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			100,175	100,175
Transfers From Other Funds	212,152	212,152	185,000	(27,152)
Transfers To Other Funds			(60,000)	(60,000)
Total Other Financing Sources (Uses)	212,152	212,152	225,175	13,023
Net Changes in Fund Balances			214,570	214,570
Fund Balances - Beginning			(197,107)	(197,107)
Fund Balances - Ending	\$ 0	\$ 0	\$ 17,463	\$ 17,463

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

BUILDING ADMINISTRATION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General Government	\$	\$ 75,000	\$	\$ (75,000)
Interest	10,000	10,000	10,472	472
Total Revenues	\$ 10,000	85,000	10,472	(74,528)
EXPENDITURES				
Capital Projects	1,306,911	1,381,911		1,381,911
Total Expenditures	1,306,911	1,381,911		1,381,911
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,296,911)	(1,296,911)	10,472	1,307,383
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	286,911	286,911		(286,911)
Total Other Financing Sources (Uses)	286,911	286,911		(286,911)
Net Changes in Fund Balances	(1,010,000)	(1,010,000)	10,472	1,020,472
Fund Balances - Beginning	1,010,000	1,010,000	1,010,784	784
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,021,256	\$ 1,021,256

MAGOFFIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Forest Fire Fund
ASSETS				
Cash and Cash Equivalents	\$ 7,675	\$ 60,313	\$	\$ 2,746
Total Assets	<u>\$ 7,675</u>	<u>\$ 60,313</u>	<u>\$ 0</u>	<u>\$ 2,746</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 7,675	\$ 60,313	\$	\$ 2,746
Total Fund Balances	<u>\$ 7,675</u>	<u>\$ 60,313</u>	<u>\$ 0</u>	<u>\$ 2,746</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Community Center Sinking Fund	911 Fund	Reserve Fund	Total Non-Major Governmental Funds
<u>\$ 613</u>	<u>\$ 9,068</u>	<u>\$ 222</u>	<u>\$ 80,637</u>
<u><u>\$ 613</u></u>	<u><u>\$ 9,068</u></u>	<u><u>\$ 222</u></u>	<u><u>\$ 80,637</u></u>
<u>\$ 613</u>	<u>\$ 9,068</u>	<u>\$ 222</u>	<u>\$ 80,637</u>
<u><u>\$ 613</u></u>	<u><u>\$ 9,068</u></u>	<u><u>\$ 222</u></u>	<u><u>\$ 80,637</u></u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Forest Fire Fund
REVENUES				
Taxes	\$	\$	\$	\$ 2,709
Intergovernmental	67,952	512,550	2,500	
Miscellaneous	137	1,511	54	
Interest	25	101		
Total Revenues	<u>68,114</u>	<u>514,162</u>	<u>2554</u>	<u>2,709</u>
EXPENDITURES				
General Government		26,009		
Protection to Persons and Property	408,033	63,010		3,140
General Health and Sanitation		7,994		
Social Services		31,238		
Recreation and Culture		57,716		
Roads		61,643		
Debt Service				
Capital Projects			2,500	
Administration	16,549	67,600		
Total Expenditures	<u>424,582</u>	<u>315,210</u>	<u>2,500</u>	<u>3,140</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(356,468)</u>	<u>198,952</u>	<u>54</u>	<u>(431)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	364,040			1,695
Transfers To Other Funds		(140,313)	(57)	
Total Other Financing Sources (Uses)	<u>364,040</u>	<u>(140,313)</u>	<u>(57)</u>	<u>1,695</u>
Net Change in Fund Balances	7,572	58,639	(3)	1,264
Fund Balances - Beginning	103	1,674	3	1,482
Fund Balances - Ending	<u>\$ 7,675</u>	<u>\$ 60,313</u>	<u>\$ 0</u>	<u>\$ 2,746</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Community Center Sinking Fund	911 Fund	Reserve Fund	Total Non-Major Governmental Funds
\$	\$ 104,995	\$	\$ 107,704
			583,002
	148		1,850
	10		136
0	105,153	0	692,692
			26,009
	118,437		592,620
			7,994
			31,238
			57,716
			61,643
9,140			9,140
			2,500
304	34,098		118,551
9,444	152,535	0	907,411
(9,444)	(47,382)		(214,719)
8,813	62,733		437,281
			(140,370)
8,813	62,733	0	296,911
(631)	15,351		82,192
1,244	(6,283)	222	(1,555)
\$ 613	\$ 9,068	\$ 222	\$ 80,637

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended 2005

**MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Magoffin County, Kentucky.
2. Three reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. Thirteen instances of noncompliance material to the financial statements of Magoffin County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Magoffin County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Magoffin County reported in this schedule.
7. The program tested as a major program was: FEMA Public Assistance Grants CFDA #97.036
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Magoffin County was not determined to be a low-risk auditee.

2005-01 The Fiscal Court Has Made Numerous Social Security And Medicare Payroll Errors Resulting In Liability In Excess Of \$30,000

The taxable wages reported to the IRS on the county's 941 forms for Social Security and Medicare (FICA) was understated by approximately \$197,000 for calendar year 2005. The additional amount due from both the county employees' share and fiscal court share is approximately \$15,000 each totaling \$30,000 for the 2005 calendar year due to the Internal Revenue Service. Also, the total gross wages reported on county employees' 2005 W-2 Wage and Tax Statements were \$777,421, which was understated by \$199,215 and should have been \$976,636. This was determined by comparing the 2005 fiscal court payroll summary to the federal wages reported to the Social Security Administration. It was also noted that during calendar year 2004, Social Security and Medicare wages were overstated because they included retirement withholdings. Additionally, there were nine (9) checks totaling \$7,472 paid to county employees where no payroll withholdings were withheld and these gross checks were not included on earnings records. Of the nine (9) checks written, three (3) totaling \$3,167 were paid to the County Treasurer.

We recommend the fiscal court immediately seek professional tax guidance to correct these payroll issues by amending the appropriate reports, including the 2005 W-2 Wage and Tax Statements, and pay the additional taxes due. We are referring this to the Social Security Administration, Internal Revenue Service, and the Kentucky Department of Revenue.

County Judge/Executive Bill W. May's Response:

Agree: 941c has been completed and mailed to IRS and KY Revenue Cabinet. W-2cs have been completed and mailed to applicable employees (copies attached).

Auditor's Reply:

We reviewed the amended tax forms. These forms had multiple errors. The County should seek professional tax guidance to ensure appropriate measures are taken to resolve this matter and to ensure payroll is correctly reported in the future.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-02 The Finance Officer Received \$22,466 Related To Payroll That Is Questioned

During fiscal year ending June 30, 2005, the Finance Officer received 15 weeks of vacation pay totaling \$11,898 in addition to regular wages of \$41,266. Also, the Finance Officer received overtime payments totaling \$10,394 that was not properly supported by timesheets. Further, the Finance Officer owes the county \$174 for health insurance premiums not properly deducted from her paychecks.

The county's Administrative Code states, "Vacation time shall not be accumulated in excess of four (4) regular work weeks," and "At the end of each fiscal year, an employee may exercise the option to cash in his/her vacation time; not to exceed two (2) regular work weeks." There was no formal record of vacation leave time maintained by the county for the Finance Officer. Therefore, we could not determine how much, if any, vacation time was taken. It should be noted that of the seven (7) vacation paychecks paid to the Finance Officer one (1) was signed by County Judge/Executive and six (6) were signed by the Deputy Judge/Executive.

The Finance Officer kept timesheets; however, they did not have a supervisory signature, such as the County Judge/Executive. We found that overtime was not always paid when worked. Overtime was accumulated and paid at the discretion of the Finance Officer. Also, there were instances when overtime was paid in advance of working the hours. These payments did not appear appropriate.

Further, the Finance Officer would receive overtime pay (calculated at time and a half) based on working more than eight hours each day, rather than working more than 40 hours in a week. On weeks when less than 40 hours was actually worked, the Finance Officer still received overtime pay for days that over 8 hours were worked. The Finance Officer stated that salaried employees were paid at a rate of time and a half any time they exceeded eight (8) hours in a 24-hour period. However, this was not addressed in the county's administrative code. Therefore, the applicable wage and hour laws would apply.

We recommend the Fiscal Court collect at least 13 weeks of vacation pay, which totals \$10,312 and \$174 due for additional health insurance premiums for a total of \$10,486 from the Finance Officer. We also recommend the Fiscal Court and County Attorney examine the \$10,394 in overtime paid during fiscal year ended June 30, 2005, to determine the validity of these payments. In addition, overtime should be paid in accordance with federal wage and hour laws based on a 40-hour workweek, paid on the regular payday for the pay period in which the overtime was worked and consistently applied to all county employees. Further, we recommend the County Judge/Executive review and sign the Finance Officer's timesheets as well as review and sign her paychecks to ensure appropriate payment of wages.

County Judge/Executive Bill W. May's Response:

See Amended Personnel Policy and County Attorney's opinion (copy attached).

Auditor's Reply:

The amendment to the Personnel Policy was approved by the fiscal court subsequent to our end of fieldwork. See Appendix B and Appendix C.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-03 The County Treasurer Received \$10,775 Related To Payroll That Is Questioned

During fiscal year ended June 30, 2005, the County Treasurer received seven and a half (7.5) weeks of vacation pay totaling \$3,546 in addition to regular wages of \$24,784. Also, the County Treasurer received overtime payments totaling \$5,612 that were not properly supported by timesheets. Further, the County Treasurer owes the county \$1,617 for retirement that was not withheld from the County Treasurer's paycheck as required.

The county's Administrative Code says, "Vacation time shall not be accumulated in excess of four (4) regular work weeks" and "At the end of each fiscal year, an employee may exercise the option to cash in his/her vacation time; not to exceed two (2) regular work weeks." It should be noted that all of the five (5) vacation paychecks to the County Treasurer, were signed by the Deputy Judge/Executive.

The Fiscal Court did not require timesheets and did not keep a formal record of vacation or sick time accrued and taken. As a result of the lack of records, we could not determine if overtime was actually worked or the validity of the overtime paid. However, according to the payroll ledgers the Treasurer noted overtime that was not paid when worked and she accumulated this time to be paid at her discretion.

In addition, the County Treasurer did not withhold retirement from her paycheck from April 23, 2004 through May 20, 2005. We reviewed the retirement monthly reports and found that retirement was being paid on the Treasurer's behalf by the payroll account. The County Treasurer received gross wages totaling \$32,333 in which no retirement withholdings were withheld from her gross wages. The County Treasurer owes the Fiscal Court \$1,617 ($\$32,333 \times 5\%$) in order to properly reimburse the payroll account.

We recommend the Fiscal Court collect from the County Treasurer at least five and a half (5.5) weeks of vacation pay, which equals \$2,600 and \$1,617 due for retirement withholdings for a total of \$4,217. We also recommend the Fiscal Court and County Attorney examine the \$5,612 in overtime paid to the County Treasurer during fiscal year ended June 30, 2005, to determine the validity of these payments. As mentioned in the previous comment, overtime should be paid in accordance with federal wage and hour laws based on a 40-hour work week, paid on the regular payday for the period in which the overtime was worked and consistently applied to all county employees. Additionally, we recommend the County Judge/Executive review and sign the County Treasurer's timesheets and sign her paychecks to ensure appropriate payment of wages.

County Judge/Executive Bill W. May's Response:

See Amended Personnel Policy and County Attorney's opinion (copy attached).

Auditor's Reply:

The amendment to the Personnel Policy was approved by the fiscal court subsequent to our end of fieldwork. See Appendix B and Appendix C.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-04 Other County Employees Received Vacation Pay In Excess Of Administrative Code

In addition to the Finance Officer and County Treasurer receiving excessive vacation pay, we found five (5) other employees who received more than two (2) weeks of vacation pay. The courthouse custodian and 911 supervisor each received over three and one half (3 ½) weeks of vacation pay and two road workers received over two (2) weeks of vacation pay during fiscal year ended June 30, 2005.

Also, the county employee responsible for time keeping at the road department was paid for 104 hours of vacation time while her vacation time balance reflected only 80 hours. Leave records reflected that she transferred 34 hours of sick time to vacation time in April 2005, which was not allowed by the Administrative Code. Further, we found a check to this employee for \$414 that was unidentified and not included on her earnings records. The County Treasurer stated that this appeared to be a vacation payout, but it was not reflected on her vacation time records.

The county's Administrative Code states, "Vacation time shall not be accumulated in excess of four (4) regular work weeks," and "At the end of each fiscal year, an employee may exercise the option to cash in his/her vacation time; not to exceed two (2) regular work weeks." Road department employees did maintain timesheets and records of both vacation and sick time balances.

We recommend the County Treasurer maintain leave records for all county employees and reconcile her balances to the leave records maintained by other departments (i.e. road department) each pay period. Also, we recommend Fiscal Court examine the vacation pay for all county employees to determine if any amounts should be collected from other employees who received excessive vacation pay.

County Judge/Executive Bill W. May's Response:

See Amended Personnel Policy and County Attorney's opinion (copy attached).

Auditor's Reply:

The amendment to the Personnel Policy was approved by the fiscal court subsequent to our end of fieldwork. See Appendix B and Appendix C.

2005-05 The County Judge/Executive Owes The County \$5,776

The County Judge/Executive was overpaid his salary by \$2,713 for calendar year 2004. Also, on September 29, 2004, he was paid an additional \$3,063. According to the County Treasurer, this payment was made to the Judge/Executive as a form of a flexible spending plan since the Judge/Executive did not participate in the county health insurance plan. The county's Administrative Code does not address employees waiving health insurance and the county does not have an IRS approved flexible spending plan.

For calendar year 2004, the County Judge/Executive should have been paid \$61,860 in salary and \$1,546 in training incentive payments for a total of \$63,406. These amounts are determined by the Governor's Office for Local Development in accordance with state law. Earnings records indicated that he was paid a total of \$66,119 not including the \$3,063 payment.

The County Judge/Executive should reimburse the Fiscal Court a total of \$5,776 for overpayment of salary and the unapproved payment made to him in lieu of health insurance.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-05 The County Judge/Executive Owes The County \$5,776 (Continued)

County Judge/Executive Bill W. May's Response:

Check #017994 in amount of \$2,331.54 voided. Although included in payroll record, there is no record of check clearing bank. \$2,713-\$2,332=\$381 due from employee. See Amended Personnel Policy and County Attorney's opinion on medical payment.

Auditor's Reply:

Check #17994 was replaced by check #18011. Also, the medical payment is in violation of GOLD's policy for setting the County Judge/Executive's maximum salary. The County Judge/Executive should reimburse the Fiscal Court a total of \$5,776, and the Governor's Office for Local Development should be notified when this repayment has been made.

2005-06 Timesheets Should Be Properly Maintained

During our testing of payroll, we noted the following weaknesses:

- Timesheets were not prepared by all employees
- Timesheets did not have proper supervisory approval
- Records of vacation and sick leave accumulated and taken were not properly maintained

According to KRS 337.320, "Every employer shall keep a record of . . . the hours worked each day and each week by each employee." Good internal controls dictate all timesheets have supervisory approval and records of vacation and sick time should be properly maintained.

We recommend the Fiscal Court ensure employees maintain timesheets and proper supervisory approval is obtained. Timesheets should include any approved time off, including vacation and sick time. Central oversight should be maintained for all payroll records, and reconciliation should be completed each pay period reconciling earnings records and leave time to the timesheets.

County Judge/Executive Bill W. May's Response:

Agree: This policy will be implemented immediately.

2005-07 All Expenditures Should Be Presented To The Fiscal Court For Approval

No payments for payroll and utilities were approved by Fiscal Court.

KRS 68.275(2) states, "The County Judge/Executive shall present all claims to the fiscal court for review prior to payment." Also, KRS 68.275(3) states, "The fiscal court may adopt an order, called a standing order, to pre-approve the payment of recurrent monthly payroll and utility expenses. No other expenses shall be pre-approved pursuant to this subsection without the written consent of the state local finance officer. All standing orders adopted by the fiscal court shall be renewed annually and submitted to the state local finance officer by July 1 of each fiscal year with the submission of the county budget." The Fiscal Court did not adopt a standing order for fiscal year ended June 30, 2005, and payments for payroll and utilities were not submitted to the Fiscal Court for approval. Accumulated vacation pay is not considered to be a recurring expense, and each payment should be approved by the fiscal court and not included on a standing order.

We recommend the county ensure all expenditures are approved by the Fiscal Court prior to payment.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-07 All Expenditures Should Be Presented To The Fiscal Court For Approval
(Continued)

County Judge/Executive Bill W. May's Response:

Agree: This was an oversight. Currently have Standing Order for FY-07.

2005-08 Employees Underpaid Health Insurance Premiums By \$1,857

There were two employees who received additional health insurance coverage beyond the single plan that is provided by the county. Additional health insurance premiums of \$3,677 were paid during the fiscal year for a road employee; however, only \$1,994 was withheld from his paychecks, leaving \$1,683 due from the employee. Also, additional health insurance premiums of \$3,677 were paid for the Finance Officer and only \$3,503 was withheld from her paychecks leaving \$174 due from the employee. It was also noted that no health insurance premiums were withheld subsequent to April 2005 for the Finance Officer, but the county was paying additional premiums for her during fiscal year ended June 30, 2006. We recommend the County Judge/Executive consult with the County Attorney and collect the amounts deemed appropriate.

County Judge/Executive Bill W. May's Response:

Due to an administrative error, additional coverage for road department employee was not discontinued upon his request, therefore this employee should not be liable for these payments. Finance Officer will reimburse the MCFC in the amount of \$174.

2005-09 Fiscal Court Should Approve Annual Salary Schedule

A salary schedule for all county employees was not presented to the Fiscal Court for approval. KRS 64.530 says, "The fiscal court of each county shall fix the compensation of every county officer and employee." We recommend the Fiscal Court approve a salary schedule annually.

County Judge/Executive Bill W. May's Response:

Fiscal Court sets salaries along with making appointments at the beginning of each new term of office and makes adjustments annually with the preparation and approval of the annual budget. Agree that this practice should be adopted.

2005-10 The Fiscal Court Should Comply With Bidding Requirements For FEMA Projects

Seven (7) of the nine (9) expenditures for contract work for FEMA projects tested totaling \$125,772 out of \$161,727, were not bid as required by KRS 424.260 and the county's Administrative Code. Also, the county did not maintain records in sufficient detail to reflect the significant history of the procurement, including the rationale for the method of procurement, the basis for the contractor selection, and the basis for the contract price. Federal regulations contain these procurement standards with which a subgrantee must comply under FEMA-sponsored projects. We recommend the County comply with KRS 424.260 and its own Administrative Code.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-10 The Fiscal Court Should Comply With Bidding Requirements Of FEMA Projects
(Continued)

County Judge/Executive Bill W. May's Response:

A declaration of emergency was declared. Although the disaster occurred in May 2004 and the work was not completed until the fall of 2004, work on the projects was ongoing during the interim. The declaration of emergency would have continued to be in effect.

Auditor's Reply:

The declaration of emergency could not be found in the fiscal court minutes.

2005-11 A \$51,248 KADD Lease Payment Has Been Delinquent Since October 2003

A KADD (Kentucky Area Development Districts Financing Trust) lease payment was due in October 2003 for the KADD2001_011E lease in the amount of \$51,248. The payment was made in August 2006. The result of this delinquent payment was that Fiscal Court's unreserved fund balance at the end of fiscal years 2004, 2005, and 2006 were overstated by this amount. In addition, the Fiscal Court should have been advised that a debt payment was delinquent and was subsequently paid in fiscal year 2007. We recommend the fiscal court implement policies and procedures to ensure debt payments are made timely.

County Judge/Executive Bill W. May's Response:

Paid August 15, 2006: Check #001685-General Fund

2005-12 The Fiscal Court Should Adopt A Written Investment Policy

The Fiscal Court has not adopted a written investment policy to govern the investment of public funds. KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the Fiscal Court adopt a written investment policy per KRS 66.480(3). If needed, the Fiscal Court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive Bill W. May's Response:

Agree. Treasurer will consult with the County Attorney for the purpose of preparing a policy.

2005-13 The County Should Maintain Proper Records For The Public Properties Corporation Fund

The county should maintain proper records for the Public Properties Corporation – Justice Center Fund (PPC). Since the Fiscal Court is financially accountable and legally obligated for the debt of the PPC, it is a blended component unit of the Fiscal Court. The PPC fund paid for the construction of the Justice Center, received payments from AOC, and made debt service payments for the 2002 First Mortgage Revenue Bond issue. The county should receive the bank statements for the PPC, maintain a receipts and disbursements ledger, and prepare a financial statement. We recommend the county maintain proper records for the PPC in the future.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2005
(Continued)

2005-13 The County Should Maintain Proper Records For The Public Properties Corporation Fund (Continued)

County Judge/Executive Bill W. May's Response:

Agree: Efforts will be initiated to collect and maintain the above mentioned records.

2005-14 Invoices Should Be Paid Within 30 Working Days Of Receipt

We found two invoices out of 14 tested that were not paid within 30 working days of receipt. KRS 65.140(2) states, "All bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice." We recommend the Fiscal Court pay all invoices within 30 working days in the future.

County Judge/Executive Bill W. May's Response:

Agree: Every attempt will be made to insure timely payments of claims.

PRIOR YEAR FINDINGS

- The County Should Improve Its Internal Control Procedures
- The County Treasurer Should Strengthen Controls Over Sequence Of Checks Used
- The County Should Not Have Bank Overdraft Charges
- The County Treasurer Should Prepare Accurate Bank Reconciliations For The Payroll Account
- The County Should Not Use Counter Checks
- The County Should Eliminate The Deficit In The Payroll Account
- The Sheriff Owes The County \$11,313 For Retirement
- The County Should Eliminate The Cash Deficit In The 911 Fund
- The County Should Eliminate Its Fund Deficits In The General And Solid Waste Funds
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Maintain An Encumbrance List

These prior year findings have been corrected or the County has made substantial progress in improving on these issues.

MAGOFFIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MAGOFFIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended 2005

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs :		
 <u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Public Assistance Grants (CFDA #97.036)	FEMA-1523-DR-KY	\$ 471,316
Public Assistance Grants (CFDA #97.036)	FEMA-1475-DR-KY	97,850
Weapons of Mass Destruction (CFDA #97.004)	Not Available	<u>6,242</u>
Total U.S. Department of Homeland Security		<u>575,408</u>
 <u>U.S. Department of Commerce</u>		
Passed-Through The Center for Rural Development:		
PRIDE Community Grant Program (CFDA #11.469)	CF03-24	29,538
PRIDE Super Grant (CFDA #11.469)	SG04-08	<u>120,000</u>
Total U.S. Department of Commerce		<u>149,538</u>
 <u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Governor's Office for Local Developemnt		
Community Development Block Grant (CFDA #14.228)	Not Available	<u>2,500</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 727,446</u></u>

MAGOFFIN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Magoffin County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill W. May, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 12, 2006. Magoffin County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Magoffin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Magoffin County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 2005-02, 2005-03, and 2005-06.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above, to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Magoffin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-07, 2005-08, 2005-09, 2005-10, 2005-11, 2005-12, 2005-13, and 2005-14.

This report is intended solely for the information and use of Magoffin County Fiscal Court, management, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 12, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill W. May, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Magoffin County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Magoffin County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Magoffin County's management. Our responsibility is to express an opinion on Magoffin County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Magoffin County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Magoffin County's compliance with those requirements.

In our opinion, Magoffin County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Magoffin County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Magoffin County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 12, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

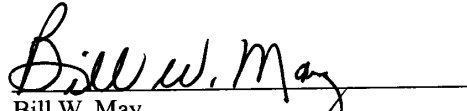
MAGOFFIN COUNTY FISCAL COURT

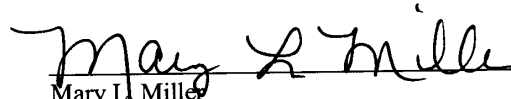
**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Bill W. May
Magoffin County Judge/Executive


Mary L. Miller
Magoffin County Treasurer

COUNTY ATTORNEY OPINION
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2005



Office of the County Attorney

Magoffin County Attorney
Donald W. McFarland

P. O. Box 464
Salyersville, Kentucky 41465

Phone: 606-349-4400
Fax: 606-349-4484

Assistant County Attorney
Jeffery N. Lovely

September 20, 2006

Bill W. May
County Judge/Executive
Magoffin County Fiscal Court
P. O. Box 430
Salyersville, KY 41465

Dear Judge May:

In response to your request of September 13, 2006, I have reviewed the comments in the above mentioned Exit Conference with the State Auditor' Office as well as the appropriate records within your office. My opinion on these issues is as follows:

2. *Vacation time accumulated in excess of four regular work weeks.* September 19, 2006 action by the Magoffin County Fiscal Court to amend the Administrative Code-Personnel Policy negates non-compliance.
Vacation time cashed in not to exceed two weeks. September 19, 2006 action by the Magoffin County Fiscal Court to amend the Administrative Code-Personnel Policy negates non-compliance.
Formal record of Vacation Time. I have reviewed the record of vacation time accrued and taken by the employee. Although this record was maintained by the employee, calculations appear correct. Also, as no conflicting records exists, it must be concluded that the employee's records are correct. Time sheets (addressed below) clearly show the amount of leave time taken.
Time sheets not Signed Properly. Although this is certainly not good practice and I would recommend that all time sheets be signed by supervision in the future, the employee was not required at the time to have time sheets signed by supervision. Based on this I would conclude that these time sheets were maintained accurately.
Overtime not paid when worked. It has been an acceptable practice for several years for overtime to be accumulated and paid later for those employees who elect to receive overtime in this manner. It has also been acceptable for salaried employees to be paid overtime based on time worked over an eight hour day. As the calculation of overtime is not addressed in the Administrative Code, and as a precedence has previously been set, it must be concluded that no violation exists. Also, records verify that \$6,668.44 was for back pay as dictated by the Kentucky Department of Revenue. Based on review of various records pertaining to the above, I find no inappropriate payments made to the employee, other than employee should reimburse the county in the amount of \$174 for health insurance not properly deducted from paycheck.

3. *Vacation time accumulated in excess of four regular work weeks.*
September 19, 2006 action by the Magoffin County Fiscal Court to amend the Administrative Code-Personnel Policy negates non-compliance.
Overtime payments.
Although the employee did not have formal time sheets, a schedule of time worked was kept on a calander. As no other records exist to dispute the employee's calculation, they must be concluded to be accurate. Also, records verify that \$3,424.80 of the amount of overtime received by employee was a result of dictation by a Kentucky Department of Labor review.
Time sheets not required by Fiscal Court.
Addressed above.
Retirement not Withheld.
Records reflect that retirement benefits were not properly deducted. The amount of \$1,617 should be collected from employee.
4. *Other employees received vacation time in excess of four regular work weeks.*
September 19, 2006 action by the Magoffin County Fiscal Court to amend the Administrative Code-Personnel Policy negates non-compliance.
5. *Additional payment (medical payments)*
September 19, 2006 action by the Magoffin County Fiscal Court to amend the Administrative Code-Personnel Policy negates non-compliance. In my opinion this was a legitimate expense.

I trust this information will be helpful in determining the existence of any non-compliance of the Administrative Code and/or any potential employee liability.

Yours truly,



Donald W. McFarland
Magoffin County Attorney

AMENDMENT TO PERSONNEL POLICY

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

Magoffin County Fiscal Court
September 26, 2006

Show the Personnel Policy of the Magoffin County Fiscal Court amended as follows:

- 3(12)3.0 Add to section: In addition, eligible employees may elect to receive an annual monetary payment for medical expenses in lieu of traditional insurance coverage. This payment may equal but not exceed the amount of the annual premium which would normally be incurred for insurance for this employee; retroactive to January 1, 2003.
- 3(12)4.1 Change Section: There shall not be a maximum applied to sick leave which an employee may accumulate.
- 3(12)6.1 Change Section: There shall not be a maximum applied to vacation/leave which an employee may accumulate.
- 3(12)4.5 Change Section: Previous employment with the Magoffin County Fiscal Court shall be considered in computing the rate at which the employee's sick vacation leave accumulates.
- 3(12)6.4 Add section: Upon request to the appropriate personnel manager, an employee may exercise the option to redeem in cash payment his/her vacation time at any time during the fiscal year; up to but not to exceed the amount in his/her individual account as verified by payroll records; retroactive to July 1, 2004.